

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 HUD-01 HEW-04 EURE-00 /094 W
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P R 251935Z JUL 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 6454
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMEMBASSY PARIS

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USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE BOARD

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: SHADOW CHANCELLOR SIR GEOFFREY HOWE'S ECONOMIC
POLICY VIEWS

1. IN CALL JULY 22 BY DCM, ACCOMPANIED BY FINATT, SHADOW
CHANCELLOR SIR GEOFFREY HOWE SET FORTH ECONOMIC PHILOSOPHY
AND PROGRAM THAT HE WOULD LIKE CONSERVATIVE PARTY TO
PURSUE IF IT TAKES OFFICE. GIVEN HOWE'S PLANS FOR CALLS
THIS WEEK IN WASHINGTON ON TREASURY SECRETARY BLUMENTHAL
AND CHAIRMAN OF THE FEDERAL RESERVE BOARD ARTHUR BURNS,
WE ARE REPORTING THE CONVERSATION IN DETAIL.

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2. IN REPLY TO A QUESTION FROM DCM CONCERNING
STRATEGIES CONSERVATIVES PLANNED TO FOLLOW. HOWE MADE
FOLLOWING POINTS:

---- THERE ARE NO QUICK SOLUTIONS TO THE UK'S PROBLEMS;
IT WILL BE HARD SLOG FOR A DECADE. AND THE PEOPLE MUST BE
TOLD THIS. NORTH SEA OIL WILL BE HELPFUL, BUT IT IS NOT

A PANACEA. IT WILL ADD TO GROSS NATIONAL PRODUCT BUT THE PROCEEDS MUST BE USED TO PAY OFF FOREIGN DEBT.

---- NO PARTICULAR ORGANIZATIONAL CHANGES ARE ENVISAGED IN GOVERNMENT STRUCTURES NOR IN THE WAY MAIN INSTITUTIONS OPERATE. RATHER, GOOD AND SOUND POLICIES ARE NEEDED, NOT COSMETIC CHANGES.

---- DIRECT TAXES, HOWEVER, WOULD BE CUT SHARPLY AND SIMPLIFIED. THERE COULD BE THREE TAX BANDS RATHER THAN THE CURRENT TEN. HOWE INDICATED HE HAD BEEN THINKING ABOUT THE PROBLEM AND DID NOT SAY WHETHER HIS PROPOSALS HAD BEEN FULLY AGREED BY THE CONSERVATIVE PARTY LEADERSHIP BUT, AT LEAST FOR ILLUSTRATIVE PURPOSES, HE SUGGESTED A 30 PERCENT FIRST WITHHOLDING BAND (INSTEAD OF CURRENT FIRST BAND 34 PERCENT) UP TO 10 THOUSAND POUNDS TAXABLE INCOME; A 40 PERCENT RATE FROM 10 TO 20 THOUSAND POUNDS; AND A 50 PERCENT RATE ON ALL INCOME ABOVE THAT RATHER THAN THE CURRENT HIGHEST 83 PERCENT LEVEL. THE ADDITIONAL 15 PERCENT SURTAX ON INVESTMENT INCOME COULD BE ABOLISHED. LOSS TO THE EXCHEQUER WOULD BE 2-1/2 BILLION POUNDS--ROUGHLY WHAT HEALEY GAVE AWAY IN THIS YEAR'S BUDGET. TO OFFSET THE LOSS VAT COULD BE INCREASED 4 TO 5 PERCENTAGE POINTS, WHICH WOULD RAISE THE RETAIL PRICE INDEX BY 2 TO 3 PERCENT. THE EFFECT WOULD BE RELATIVE SHIFT IN TAXATION WITH THE BURDEN ON EXPENDITURE RATHER LIMITED OFFICIAL USE

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THAN ON INCOME.

---- THERE WOULD BE CONSIDERABLE DEREGULATION. HOWE SAID, FOR EXAMPLE. IT TAKES FROM 1.7 TO 3.5 TIMES LONGER TO BUILD A FACTORY IN ENGLAND THAN IN COMPETITOR COUNTRIES.

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C O R R E C T E D C O P Y (TEXT--OMISSION PARA THREE)

MUCH OF THE BLAME LIES IN THE DIFFICULTY IN GETTING ZONING
APPROVAL, LOCAL AUTHORITY APPROVAL, ETC. CONSIDERABLE
EFFORT WOULD BE MADE TO SIMPLIFY THE RULES.

---- GOVERNMENT EXPENDITURE WOULD BE CUT IN A WIDE-
RANGING WAY EXCEPT ON DEFENSE AND FOR THE POLICE. SOCIAL
PROGRAMS WOULD AIM AT THOSE IN GREATEST NEED. HOUSING SUB-
SIDIES WHICH COVER ROUGHLY 50 PERCENT OF HOUSING COSTS IN
COUNCIL (LOCAL GOVERNMENT) HOUSING WOULD BE REDUCED,
ALTHOUGH FOR ELECTORAL REASONS THE CONSERVATIVES ARE NOT
SAYING MUCH ABOUT THIS PUBLICLY. MAJOR EFFORTS WOULD BE
MADE TO REDUCE THE POVERTY TRAP. WHEREBY INDEXATION OF
SOCIAL BENEFITS INCLUDING UNEMPLOYMENT BENEFITS MAKES IT
MORE ATTRACTIVE NOT TO WORK THAN TO TAKE A JOB.

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3. DISCUSSING INTERNATIONAL MATTERS, HOWE EXPRESSED
CONCERN ABOUT RESTRICTIVE TRADE MEASURES IN A MACRO SENSE.
HE HAS LITTLE POSITIVE FAITH IN THE ABILITY OF INTERNATION-
AL ORGANIZATIONS TO BRING ABOUT CONSTRUCTIVE CHANGE. HOW-
EVER, THEY CAN BE HELPFUL IN PREVENTING BACKSLIDING. TURN-
ING TO EC MATTERS, HE NOTED US OBJECTIONS TO CAP, ADDING
CAP HAS BEEN BEST DEFENDED BY THE FRENCH IN TERMS OF SUP-
PORTING CONTINUATION OF POLITICAL AND SOCIAL STABILITY
AMONG THE RURAL PEASANTRY AND BOURGEOISIE. LOOKING
FURTHER AHEAD, HE HAS REAL DOUBTS ABOUT THE ABILITY OF THE
EC TO BRING ABOUT MONETARY AND FINANCIAL INTEGRATION
HE QUESTIONED IF IT WERE EVEN DESIRABLE. IN HIS CON-
VERSATION, HE NOTED, FINALLY, THE DIFFERENT TAX STRUC-
TURES IN INDIVIDUAL STATES IN THE US AND CITED THE HISTOR-

IC DIFFICULTY THE US HAD IN DEVELOPING A COMMON CURRENCY
IN THE DECADES FOLLOWING THE REVOLUTION. HE SAW NO REASON
TO EXPECT ANY QUICKER PROGRESS WITHIN THE EC.

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